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ABSTRACT

Designed for high school economics students as a public service project of the American Fletcher National Bank, the booklet examines corporate philanthropy in the context of President Reagan's "New Federalism," a program designed to return social welfare and human service programs to state and local government and the business community. In compliance with this program, a Task Force on Private Initiative was created to encourage an increase in corporate philanthropy. However, public polls indicate most Americans underestimate current corporate contributions to philanthropic causes such as colleges and universities, health and welfare, civic activities, and culture and art groups. The major shortcoming in corporate philanthropy today is that the burden is borne by too few, with nearly 50% of all corporate charity coming from fewer than 1,000 companies. Corporate philanthropy results from a sense of social responsibility, the notion that profitability increases by improving social conditions, and the need to maintain political strength. Beyond cash contributions, corporations create jobs and training for the unemployed, invest in decaying inner cities, loan expertise to local and state government, free employees to conduct charitable work on company time, donate materials and services, and loan employees for extended services with an organization. Thus, in light of current economic decline, a growing number of business leaders contend that the New Federalism is unrealistic. (LH)

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THE GREAT GIVEAWAY: CORPORATE PHILANTHROPY AMID DECLINING PROFITS

FUNDAMENTALS OF FREE ENTERPRISE

No. 8

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American Fletcher National Bank and Trust Co.
Indianapolis, Indiana

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The Great Giveaway:

Corporate Philanthropy Amid Declining Profits



Since the 1981 inauguration of Ronald Reagan as the nation's 40th President, a new term — the "New Federalism" — has entered the political vocabulary of most Americans.

It is symbolic language designed to depict the President's ambitious program to reverse a 50-year trend in public policy — to return to state and local government and to the private sector many of the welfare and human services obligations that have been piling up in Washington since the advent of the New Deal.

An important dimension of the White House plan is an appeal to America's business community to pick up part of the social burden that the federal government is handing back to the states.

The President dramatized this goal by creating a Task Force on Private Initiatives, which has been given the responsibility of encouraging an increase in corporate philanthropy across the nation.

"Philanthropy" is defined as an affection for mankind, especially as manifested in donations of money, property or work to needy persons or to socially useful purposes.

The Task Force specifically wants American corporations to:

1. Double their financial contributions to community-service activities over the next four years to about 2% of pre-tax net income;
2. Double both corporate and individual involvement in community service activities;
3. Assess the pattern and direction of contributions to insure that the most urgent needs are met; and
4. Help foster public-private sector partnerships to sustain community social services and programs.

While there is nothing intrinsically wrong with these worthy objectives, all the publicity generated about the President's appeal tends to mask an important detail. America's corporations — many of them, at least — already have compiled a record of generosity in recent years that surely is unequalled anywhere in the world.

The sometimes public impression of the American corporation as tight-fisted and miserly, indifferent to social problems or cultural advancement, simply doesn't hold up under close analysis.

In 1981, for example, American corporations gave a record \$3 billion in hard cash to assorted philanthropic causes, an increase of 11% over the previous year. Meanwhile, philanthropic foundations, which derive their wealth from the earnings of corporations, gave an additional \$2.6 billion, an increase of more than 9%.

Remarkably, all this increased giving was coming at a time when corporate profits were declining by 9% over 1980 levels.

As a portion of pre-tax net income, corporate giving in 1981 equaled 1.3% — a figure that has been approached only once before in the last 30 years. In 1969, corporations gave 1.2% of their pre-tax net income.

All this money goes for a variety of good causes. Colleges and universities are the greatest benefactors, receiving 37.8% of

the total. Health and welfare organizations get 34%, followed by civic activities (11.7%), cultural and art groups (10.9%), and other causes (5.6%).

The record of corporate philanthropy in the United States may be one of the great untold stories of American life today. In recent public opinion polls, for example, a hefty 40% of those interviewed — perhaps uninformed about the level of current giving — said they would like to see corporations give more of their earnings away. An even larger percentage — 64% — said they believed corporations had an obligation to give more of their profits to worthy causes and to worry less about making larger earnings.

If the American public is unaware that corporations are so generous, it may be because many companies seem to operate on the basis of what some call the "mushroom theory" — that things grow better in the dark. The Bible refers to it as "hiding one's candle under a bushel." Corporations are often reluctant to talk about their gifts — perhaps for fear of seeming too boastful, perhaps out of concern for generating more requests than they can possibly meet.

But even the cash contributions, as low key as they often are, comprise only a fraction of the story. Corporations make major social contributions in other ways that come at the expense of net profits.

Brian O'Connell, a well-known analyst of corporate philanthropy, has observed the following:

"Gifts of property and equipment, and support of nonprofit activities through advertising and marketing budgets brings the dollar total to at least twice what all foundations provide each year. If one adds to the already impressive dollar total the value of time contributed by company representatives, the new totals rise even more dramatically . . . We are not looking at corporate philanthropy at a level of \$3 billion, but something closer to \$10 billion."

O'Connell's observation is right on target. In recent years, corporations have gone far beyond cash contributions and have fully immersed themselves in community life.

The involvement has taken a variety of forms . . . job creation and training for the unemployed . . . targeted investments in decaying inner cities . . . loaned technical expertise to local and state government . . . freeing executives and line employees to

conduct charitable work on company time . . . generous donations of materials and services . . . and, perhaps most costly of all, loaning company employees for extended service with an organization.

There probably is no way to compute the exact dollar value of these programs, but O'Connell's \$10 billion estimate could be very conservative.

If there is a major shortcoming in corporate philanthropy today, it could be that the burden is borne by too few.

Only one-fourth of the nation's 2.1 million corporations make cash contributions to bona fide charities, and only about 6% give more than \$500 a year. In fact, nearly 50% of all corporate charity comes from fewer than 1,000 companies.

The Presidential task force hopes to change all that by encouraging more companies to give — and for current givers to give more generously.

But one could well ask why corporations give anything at all . . . why, indeed, when profit

margins are dwindling and corporate bankruptcies are becoming more commonplace . . . why, indeed, when a major American economist like Milton Friedman can argue convincingly that the corporation has no other social responsibility than to make a good product, sell it at a fair price, and make a reasonable profit.

There are three principal reasons why companies give money and donate materials and personnel time for good causes. In the mind of the executive decision-maker, they may blur together at times.

There is the "corporate social responsibility" philosophy that is well represented by E.M. DeWindt, chairman of the giant Eaton Corporation. He has written:

" . . . corporate social responsibility and corporate citizenship are realities of today's world and must be discharged with as much vigor, enthusiasm, professionalism, and confidence as the facets of business that make up the balance sheet and operating statement — in good times and tough times.

"After reading my own company's annual report, a shareholder or institutional investor might well ask, 'How could you contribute nearly \$3 million to philanthropic causes in a year that saw the lowest

profits since the disastrous 1975 recession?" Our reply is simply, "How could we do less and maintain our confidence in the future?"

Corporate giving also is done cut of enlightened self-interest — the notion that a company helps itself in the long run by helping to alleviate social problems. One of the best summaries of that philosophy was offered by then-candidate Jimmy Carter in the 1976 Presidential campaign:

"By working to improve social conditions, the corporation is working to improve its profitability. Social activities may not be immediately translatable into profits on the books, but the well-being of the community will eventually improve the well-being of a corporation. If schools in a community deteriorate, for example, the skills of those entering the labor market will also suffer. A corporate citizen of that community can only be harmed by having a lower quality work force at its disposal."

Finally, giving is motivated in some circles by anxiety about what might happen if there were no giving — the "fear of social revolution" school. It is the philosophy that is expressed in a

statement by Alexander Trowbridge, president of the National Association of Manufacturers:

"The American public will seek an improvement in the quality of life, and if it doesn't see business as a contributor to that effort, then our political strength will ebb and the pendulum can swing back to the onerous levels of past adversary relationships."

Or consider this comment by Bernard Rapoport, chairman of the American Income Life Insurance Company:

"Part of corporate responsibility is that we recognize the need to assume those responsibilities that decency dictates . . . Corporate intelligence recognizes that today's unmet needs produce tomorrow's revolutions."

Regardless of the motivation, there are literally hundreds of corporations and foundations that have compiled outstanding records of service to the areas they serve.

For example, the Dayton-Hudson Corporation, headquartered in Minneapolis, has a tradition of generosity that spans nearly 80 years. The corporation's founder, George Draper Dayton, opened a small drygoods store in Minneapolis in 1902, and not long after that started giving back some of his profits to the community that made him successful.

Today, Dayton-Hudson operates some 800 stores in 47 states. It ranks 139th in the nation in retail sales — and 20th in the country in corporate contributions!

In the last 15 years, the Dayton-Hudson Foundation and the various companies under the corporate umbrella — including B. Dalton Bookstores and Target Stores — have given more than \$50 million to the cities where they are located.

Since 1946, Dayton-Hudson has given away 5% of its pre-tax earnings — almost five times the national average for corporate gifts. Dayton-Hudson has set the pace for other Minneapolis corporations, and today there are 45 companies in the Twin Cities area that have come alongside

Dayton-Hudson as contributors of 5% of pre-tax earnings.

Another dramatic example of private philanthropy is the huge Xerox Corporation.

In 1980 alone, the Xerox Foundation gave \$6.8 million to a variety of projects in higher education, international, national, and community affairs, and cultural activities. The Xerox Corporation itself contributed an additional \$1.1 million to similar causes.

In addition to the financial contributions, Xerox has also demonstrated its generosity and public concern in other ways.

For example, beginning in 1972, Xerox has granted social service leaves to some 300 employees to work on varied service projects of their own choosing. Leave-takers retain their full pay and benefits and return to their old jobs or jobs of similar caliber when the projects are completed.

Through its community involvement program, Xerox also provides "seed money" for employees to work on problems in their own communities. Since the program began in 1974, thousands of Xerox employees

have participated in more than 1,500 projects across the nation.

In support of United Way, Xerox gave \$2 million in 1979, and Xerox employees gave an additional \$2.5 million. More than 75% of the corporation's employees participated as solicitors or as contributors in 150 local United Way campaigns.

Xerox also matched employee gifts to qualified educational and cultural institutions, from a minimum of \$25 to a maximum of \$1,000 per institution per year. In 1979, 2,350 employee gifts to 350 institutions were matched by Xerox.

Probably no American city has benefited more from corporate and foundation philanthropy in the last decade than Indianapolis.

Such giving has provided many of the resources for the Hoosier capital's thrust for greatness in higher education, research, cultural life and athletics.

While Indianapolis corporations have contributed generously to a variety of special projects and programs, the unselfishness of two foundations — Lilly Endowment, Inc., and the Krannert Charitable Trust — has been especially noteworthy.

Both foundations have channeled millions of dollars into assorted cultural programs in the city and have underwritten numerous projects at the city's four colleges and universities.

In addition, Lilly and Krannert have been major financial contributors in the development of several world-class athletic facilities that have enabled Indianapolis to attract national and international sporting events to the city.

More recently, Lilly and Krannert have been large benefactors in the construction of an expanded convention center and 63,000-seat domed stadium. It is the focal point of the city's effort to attract major conventions and professional football and baseball franchises to Indiana.

Clearly, Indianapolis is carving out a 21st century image for itself on the strength of corporate and foundation dollars.

If corporate and foundation philanthropy has been abundant in the past, there are ominous signs that future increases will be moderate at best.

Many prominent business leaders are proclaiming that President Reagan's ambitious agenda for corporate giving can never be realized under current economic conditions.

It is unmistakably clear that business must make a profit before it can give money away, and the recent record of earnings is not very promising. After reaching a high of \$169 billion in after-tax profits in 1979, American business profits have fallen sharply and are expected to be no higher than \$119 billion by the end of 1982.

Earnings in 1982 are so dismal that business generally is looking at a third straight year of declining profits. It has been 50 years since corporate net income dropped for such a prolonged period. Profits now total about 3.9% of the country's Gross National Product, the lowest percentage of the GNP since the Depression years of the 1930s.

Economic decline in recent years is reflected in a growing number of business failures —the worst since the Depression.

Dun & Bradstreet, a private credit-information service, reports there were 7,564 business failures in 1979, 11,742 in 1980, and 17,040 in 1981. The 1982 pace of bankruptcies, according to the New York firm, was averaging 500 a week for the first nine months, the highest rate since 1932. Corporate and commercial failures were expected to approach 24,000 by the end of the year.

A growing number of business leaders contend that the President's wishes are unrealistic, given recent economic conditions. They argue that they cannot begin to fund all the social programs that are

being cut back by Washington lawmakers.

The Council for Financial Aid to Education says that corporate giving for all causes will approach \$3.3 billion in 1982 — an amount equal to only 10% of the federal government's anticipated budgetary cutbacks of \$36 billion. To replace such a shortfall, corporations would need to increase their giving from 1% of pre-tax income to nearly 15% — an increase most businesses would consider out of the question.

William Baroody, president of the American Enterprise Institute, says, for example: "Let's get the record straight . . . the private sector neither can nor should refund the same programmatic structure defined by Congress. The federal budget this year (1982) will exceed \$700 billion . . . Obviously, private giving will never approach the level of government funding."

Comments by two other business leaders are even more to the point. Arthur W. Cowles, vice president of Koppers Company, Inc., says: "Social responsibility is the direct result of profitability. We don't know what Braniff gave last year." (Note: Braniff went into bankruptcy in 1982.)

Lloyd B. Dennis, senior vice president of First Interstate Bank of California, told a meeting of the Public Affairs Council in May 1982 that corporations are "drowning" in charitable requests. He noted they increased 58% in a single year and cited one oil company that received almost 10,000 requests for funds in 1981 — one every 12 minutes!

Finally, the Independent Sector, an umbrella group for foundations, national voluntary organizations, and business corporations with large public service programs, has taken sharp issue with the President's budget-cutting proposals.

The group contends these cuts "impact disproportionately and severely on already vulnerable persons in our society, and are weakening many of the voluntary organizations that are now being counted on to expand services."

The Independent Sector says corporations and foundations will continue to give generously, but cautions that "there are totally unrealistic expectations for what private philanthropy and voluntary organizations can do."

As the rhetoric heats up and corporate executives and politicians debate the proper balance between public and private support of worthy causes, the business community believes the American public should remember two important lessons.

First, they hope Americans appreciate that business already is generous in its support of good causes — indeed, has been for many years and will continue to be in the future. In short, business generally has recognized its social responsibility and has met the test.

Second, business leaders encourage Americans to understand that profitability must precede philanthropy. Until business is able to reverse the current trend in declining earnings, there is little hope that corporations can do much more to ease some of the discomforts of the "New Federalism."